

**PUBLIC DISCLOSURE**

MARCH 18, 1996

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

CENTENNIAL BANK

154257

10-08-0595

13700 EAST ARAPAHOE ROAD  
ENGLEWOOD, COLORADO 80112

Federal Reserve Bank of Kansas City  
925 Grand Avenue  
Kansas City, Missouri 64198

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the

federal financial supervisory agency concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of Centennial Bank prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of March 18, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** *This institution is rated satisfactory.*

In a manner consistent with its resources and capabilities, Centennial Bank's CRA performance in meeting the credit needs of its community is considered satisfactory. This satisfactory rating indicates the following: a majority of loans located within the bank's assessment area, a reasonable geographic dispersion of loans within the bank's assessment area, and a reasonable penetration of loans among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Collectively, the above criteria indicate reasonable lending activity; however, the bank's low loan-to-deposit ratio does not meet the standards for satisfactory performance.

The following table indicates the performance level of Centennial Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT	CENTENNIAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not Meet Standards for Satisfactory Performance
Loan-to- Deposit Ratio			X
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaint	No complaints received since the last examination.		

## DESCRIPTION OF INSTITUTION

Centennial Bank has one location in the city of Englewood, Colorado. As of the December 31, 1995 Report of Condition and Income ("Call Report"), the bank's total assets were \$22,205,000. The December 31, 1995 Call Report also indicates the following loan distribution:

<u>Loan Type</u>	<u>Amount in Thousands</u>	<u>Percent of Total Loans</u>
Construction and land		

development loans	\$ 83	2
Real estate-secured loans	856	25
Commercial loans	1,130	34
Consumer loans	1,293	38
Other loans and obligations	<u>1</u>	<u>&lt;1</u>
Total	\$3,363	100

This distribution indicates that the bank's main lending focus is in commercial and consumer lending. These two major product lines were sampled to evaluate the bank's CRA performance.

### **DESCRIPTION OF CENTENNIAL BANK'S ASSESSMENT AREA**

The bank's assessment area is located within the Denver Metropolitan Statistical Area ("MSA"). The census tracts included in the bank's assessment area cover large portions of Arapahoe and Douglas counties and include the towns of Englewood, Parker, Aurora, and portions of Littleton. There are 96 census tracts in the bank's assessment area. Of these, 3 are low-income, 20 are moderate-income, 36 are middle-income and 37 are upper-income tracts as of the 1990 census data. This indicates that approximately 76 percent of the bank's community is comprised of middle- and upper-income census tracts. Although, the low- and moderate-income census tracts are few in number, other such census tracts have not been arbitrarily excluded from the bank's assessment area.

According to the 1990 census income data, the bank's assessment area median family income was \$44,975. This income is comparatively higher than the Denver MSA income of \$40,222 and the state of Colorado income of \$35,930.

Much of the bank's assessment area has experienced rapid growth and a booming residential real estate market within recent years. However, the area immediately surrounding the bank has experienced only modest growth. Most of the property adjacent to the bank is zoned as light industrial. Therefore, development includes mainly small office complexes and light manufacturing operations.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Centennial Bank's performance under the CRA is considered satisfactory. Lending levels reflect moderate responsiveness to the community credit needs.

The performance test for small banks includes an assessment of the bank's total

loans as a percent of total deposits, an evaluation of loan volume within the assessment area, an evaluation of lending activity to borrowers of different income levels and businesses and farms of different sizes, an assessment of geographic dispersion of loans throughout the assessment area, and an assessment of the bank's responsiveness to complaints. The bank's performance under these tests is addressed below.

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio for Centennial Bank is considered to be moderately low given the bank's size and financial condition and the credit needs of the assessment area. The bank's average loan-to-deposit ratio for 1995 was 21 percent. This ratio is considered extremely low in comparison to banks of similar size (\$20 million to \$75 million in total assets) in the Denver MSA. Average net loans-and-leases to total deposits for six such banks for the same period was 67 percent. Individually, the ratios for these banks ranged from 59 percent to 81 percent. Additionally, the bank's national peer group had an average net loans-and-leases to deposit ratio of 59 percent.

The loan-to-deposit ratio is low partially a result of the deposits held in escrow for the business interests of one of the bank's shareholders. These deposits cannot be used to fund loans because of their volatile nature. These escrowed deposits averaged 53 percent of the bank's total deposits during 1995. The loan-to-deposit ratio, therefore, was adjusted by subtracting the nonloanable funds from the bank's total deposits. The bank's adjusted loan-to-deposit ratio ranged from 36 to 52 percent for each quarter in 1995. The adjustment resulted in an average loan-to-deposit ratio for the bank for the year of 45 percent.

Another mitigating factor is the bank's lending activity to contractors of residential dwellings. This activity, which is a major component of the bank's lending, results in fairly large dollar amounts of unfunded commitments that are not reflected in the loan-to-deposit ratio.

However, even when nonloanable funds and unfunded commitments are considered, the loan-to-deposit ratio reflects moderately low responsiveness to the credit needs of its assessment area.

### **Lending in Assessment Area**

A majority of the bank's loan originations are located within the assessment area. A sample of 66 motor vehicle and business-purpose loans made during the period

from February 1995 through February 1996 was reviewed. The analysis revealed that 53 percent of the motor vehicle and 75 percent of the business-purpose loans were made within the bank's assessment area. Also, 40 percent of the motor vehicle and 96 percent of the business-purpose loan dollar volumes were within the bank's assessment area. Collectively, 62 percent of the number and 91 percent of the dollar volume of the loans reviewed were generated within the bank's assessment area. These results indicate a reasonable reinvestment in the bank's assessment area.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The bank's performance in lending to individuals and businesses with different income levels is satisfactory. This analysis was completed using the motor vehicle and business-purpose loan sample. Comparisons were made of the income level of the motor vehicle borrower to the median family income (\$40,222) in the MSA. These comparisons revealed the following:

DISTRIBUTION BY BORROWER INCOME LEVEL OF MOTOR VEHICLE LOANS	
Income Category	Percentage of Loans
Low (<50% of median)	50
Moderate (50 to 79% of median)	25
Middle (80 to 119% of median)	10
Upper(<120% of median)	15
TOTAL	100

The loan dispersion among various business income levels was also assessed. Review of the business-purpose loan sample indicates that the bank is making loans across all income levels. The following table demonstrates the business-purpose loan penetration.

DISTRIBUTION OF BUSINESS LOANS BY GROSS ANNUAL REVENUES	
Gross Annual Revenues	Percentage of Loans
Less than \$100,000	32
\$100,000 to \$250,000	11
\$250,000 to \$500,000	11
\$500,000 to \$1,000,000	25
Greater than \$1,000,000	21
TOTAL	100

### **Geographic Distribution of Loans**

Generally, the bank has a satisfactory loan distribution. A geographic analysis of the loan sample was performed during the examination. The loan analysis indicates that loans are dispersed throughout much of the bank's assessment area, including areas of least accessibility to the bank. However, the census tracts in the southern region of the assessment area had limited loan penetration. These census tracts were added to the bank's assessment area when Regulation BB, which implements the CRA, was revised as of January 1, 1996. The bank has not had sufficient time to penetrate this market. Additionally, the census tracts are middle- and upper-income census tracts and, therefore, limited loan dispersion in this area does not negatively affect any low- and moderate-income areas.

A comparison of the income level of the census tracts and the bank's lending patterns within the assessment area was also reviewed. Dispersion of loans among the respective census tract income levels revealed there was no penetration into low-income census tracts for motor vehicle loans. However, fifty percent of the vehicle loans within the bank's assessment area were within moderate-income census tracts. Twenty percent of the loans were within the middle-income census tracts and 30 percent were within upper-income census tracts. The loan dispersion by census tract income level compares favorably with the income levels of the census tracts within the bank's assessment area. Within this area, there are only 3 low-income census tracts (3 percent). Further, the moderate-, middle- and upper-income census tracts represent 21 percent, 37 percent and 38 percent,



respectively, of the total census tracts within the bank's assessment area.

The dispersion of business loans among the respective income tracts indicated no penetration in the moderate and middle income census tracts. The sample revealed that business loans in low- and upper-income census tracts represented 5 percent and 95 percent, respectively, of the business loans within the bank's assessment area. Although the majority of business loans sampled were located in upper-income census tracts, these loans were reasonably dispersed throughout the bank's assessment area and not concentrated in any one particular area.

### **Response to Complaints**

The bank has not received any complaints since the last CRA examination. Therefore, no assessment of the bank's performance in responding to complaints was performed.

### **Compliance with Antidiscrimination Laws and Regulations**

There were no violations of the antidiscrimination laws and regulations identified during the fair lending component of the compliance examination.